



**Investment Office**

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**February 17, 2009**

**AGENDA ITEM 6b**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** California Initiative Annual Review
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Information only
- IV. ANALYSIS:**

This agenda item represents an annual update to the Investment Committee on the California Initiative (the "Program").

The California Initiative was originally established in 2001 with a \$475 million allocation ("Phase I"). In December 2006, the second phase of the Program was established with a \$500 million commitment to the Golden State Investment Fund ("GSIF" or "Phase II"), which is managed by Hamilton Lane.

The primary objective of the California Initiative is to earn attractive risk-adjusted rates of return by investing in underserved markets primarily located in California. As an ancillary benefit, the Program's investments are expected to have a positive impact on the economies in which the capital is invested.

Each year, CalPERS produces a report that summarizes the ancillary benefits associated with the Program. The report is prepared by Pacific Community Ventures, a leading advisor to businesses located in low/moderate income communities in California.

Attachment 1 contains a PowerPoint presentation summarizing the financial results of the Program as of September 30, 2008 as well as the ancillary benefits as of June 30, 2008. Attachment 2 contains the detailed ancillary benefits report created by Pacific Community Ventures. Both reports incorporate feedback received from the Investment Committee from prior Investment Committee agenda items on the Program.

While Phase I of the Program continues to generate satisfactory returns, the difficult economic and market environment has impacted overall performance. The since inception internal rate of return ("IRR") on Phase II peaked in September 2007 at 18% but has declined to 10.5% as of September 2008. Despite this decline, Phase I has achieved positive returns that are well in excess of the return on public equities over the same time period, and it remains in the top half of performers relative to the benchmark of similarly aged private equity funds. Note, performance figures for Phase II are not meaningful due to the early nature of the investments.

It should be noted that the California Initiative is but one component of AIM's overall exposure to California companies. In aggregate, the AIM Program has over \$2.8 billion invested in a highly diversified portfolio of California-based companies, representing 12% of the total market value of the AIM portfolio. AIM staff believes this weighting to California is appropriate given the unique size characteristics of the California economy and the ability to build a diversified portfolio that reflects the state's large number and wide array of business entities.

AIM Staff and Pacific Community Ventures will present the agenda item and will be available to answer questions at the Investment Committee meeting. In addition, representatives from Hamilton Lane will be available to the Investment Committee.

## **V. STRATEGIC PLAN:**

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns.

## **VI. RESULTS:**

Attached is a presentation highlighting key information about the California Initiative.

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